

# City of Klawock Alaska

PO Box 469  
Klawock, Alaska 99925

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or: (907) 755-2262  
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*"Site of the First Salmon Cannery in Alaska"*

February 7, 2005

✓ Mr. Paul McIntosh *241*  
Denali Commission  
510 "L" Street, Suite 410  
Anchorage, Alaska 99501



Re: FY 2002 Consolidated Annual Financial Report

Dear Mr. McIntosh:

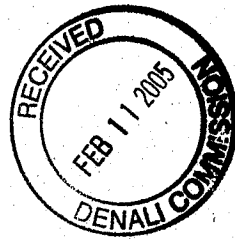
Please find enclosed one copy of the City of Klawock's Fiscal Year 2002 Consolidated Annual Financial Report and the report titled "Federal Financial Assistance Supplementary Audit Report".

The City of Klawock hopes this satisfies our requirement with your agency. Should there be further requests in this regard please notify the City of Klawock.

Sincerely,

*John E. Morris*

John E. Morris  
City Administrator



CITY OF KLAUOCK  
ANNUAL FINANCIAL REPORT

June 30, 2002

**MECHAM, RICHARDSON AND COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF KLAWOCK  
ANNUAL FINANCIAL REPORT  
June 30, 2002

**CITY OF KLAWOCK**  
**Annual Financial Report**  
**For the Year Ended June 30, 2002**

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**CITY OF KLAWOCK**  
**Annual Financial Report**  
**For the Year Ended June 30, 2002**

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REPORT OF INDEPENDENT ACCOUNTANTS

**MECHAM, RICHARDSON AND COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**

Member of the AICPA Private Companies Practice Section

1734 TONGASS AVENUE  
KETCHIKAN, ALASKA 99901  
(907) 225-9688  
FAX (907) 225-9687

Partners  
Edward B. Mecham, CPA  
S. Dirk Richardson, CPA

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the City Council  
City of Klawock  
Klawock, Alaska

We have audited the accompanying general-purpose financial statements of the City of Klawock, Alaska (the "City"), as of and for the year ended June 30, 2002. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to audit the General Fixed Assets Account Group because that account group's detail listing of assets was incomplete at the time of the completion of our audit. For the same reason, we were unable to audit the General Fixed Assets Account Group of the component unit, the Klawock City School District. Therefore, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the accompanying General Fixed Assets Account Group and the component unit general fixed assets.

**MECHAM, RICHARDSON AND COMPANY**  
**CERTIFIED PUBLIC ACCOUNTANTS**

Honorable Mayor and Members of the City Council  
City of Klawock

In our opinion, with the exception of the general fixed assets and the component unit fixed assets, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Klawock, Alaska, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund and account group financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the City of Klawock, Alaska. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements, and, in our opinion, with the exception of the general fixed assets and the component unit fixed assets, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

In accordance with *Governmental Auditing Standards*, we also issued a report dated November 10, 2004 on our consideration of the City of Klawock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Mecham Richardson and Company*

Ketchikan, Alaska  
November 10, 2004



## GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF KLAUWICK  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
June 30, 2002

	Governmental Fund Types				Proprietary Fund Type	Account Groups		(Memorandum Only)		(Memorandum Only)
	Special Revenue		Debt Service	Capital Projects		General Fixed Assets	General Long-term Debt	Total for Primary Government	Component Unit	
	General									
ASSETS AND OTHER DEBITS										
Cash held by agents					25,633			25,633		25,633
Cash and investments	830,015	8,770	14,027		205,614			1,058,426	1,494,044	2,552,470
Cash restricted by loan covenants					225,000			225,000		225,000
Receivables (net of allowances for uncollectibles)										
Accounts					18,358			18,358		18,358
Grants	7,564	13,383			120,540			141,487	115,223	256,710
Interest										
Special assessments			897,348					897,348		897,348
Sales tax	150,557							150,557		150,557
Other										
Prepaid expenses	220				3,960			4,180		4,180
Due from other funds				1,973	435,312			440,333	661,977	1,102,310
Advances to other funds		3,048			99,803			99,803		99,803
Inventory					170,295			170,295	12,090	182,385
Fixed assets (net, where applicable, of accumulated depreciation)					11,096,314		2,819,636	13,915,950	565,641	14,481,591
Amount in debt service fund								14,027		14,027
Amount to be provided for retirement of general long-term debt										
Total assets and other debits	\$ 988,356	\$ 25,201	\$ 911,375	\$ 1,973	\$ 12,400,829	\$ 915,694	\$ 2,819,636	\$ 18,077,091	\$ 2,912,146	\$ 20,989,237
LIABILITIES AND OTHER CREDITS										
Liabilities										
Accounts payable	45,175	7,304			176,652			229,131	174,119	403,250
Advances from other funds	99,803							99,803		99,803
Due to component unit	11,365				16,374			11,365		11,365
Sales tax payable		1,300						16,374		16,374
Other payables								1,300		1,300
Deferred revenue	121,827		897,348	1,973	45,958			1,067,106	46,925	1,114,031
Annual leave payable	11,854				15,856			27,710		27,710
Due to other funds	158,597	13,019			268,717			440,333	661,977	1,102,310
Due to oversight entity										
Due to student groups										
Payroll and payroll taxes payable	16,724				36,777			53,501	62,003	62,003
Landfill closure and postclosure cost liability					867,845			867,845	9,662	63,163
Notes payable					415,250			437,552		867,845
Special assessment debt with government commitment								22,302		437,552
Total liabilities	465,345	21,623	897,348	1,973	1,843,429	907,419		4,159,439	954,686	907,419
						929,721				5,114,125

CITY OF KLAUWICK  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)  
June 30, 2002

EQUITY AND OTHER CREDITS												
Investments in general fixed assets												
Contribution in aid of construction, net of amortization												
Retained earnings:												
Reserved for loan guarantee					9,801,303	2,819,636			2,819,636	565,641	3,385,277	
Reserved for prepaids					225,000				225,000			9,801,303
Reserved for inventory					3,960				3,960			225,000
Unreserved, undesignated					170,295				170,295			3,960
Fund balances (deficits):					356,842				356,842			170,295
Reserved for inventory												356,842
Reserved for construction												
Statutory P. L. 874												
Unreserved, undesignated												
Total equity and other credits	523,011	3,578	14,027		10,557,400	2,819,636			540,616	298,242	838,858	
	523,011	3,578	14,027						13,917,652	1,957,460	15,875,112	
Total liabilities, equity and other credits	\$ 988,356	\$ 25,201	\$ 911,375	\$ 1,973	\$ 12,400,829	\$ 2,819,636	\$ 929,721	\$ 18,077,091	\$ 2,912,146	\$ 20,989,237		

CITY OF KLAUWOCK  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
 For the Year Ended June 30, 2002

	Governmental Fund Types				(Memorandum Only) Total for Primary Government	Component Unit	(Memorandum Only) Total for Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects			
Revenues							
Taxes	424,183				424,183		424,183
Intergovernmental	364,106	39,141			403,247	2,591,119	2,994,366
Charges for services	23,643				23,643		23,643
Special assessments			19,799		19,799		19,799
Citations	6,379				6,379		6,379
Interest	39,813		22,585		62,398	22,521	84,919
Miscellaneous	4,747	10,149			14,896	67,301	82,197
Total revenues	862,871	49,290	42,384		954,545	2,680,941	3,635,486
Expenditures							
Council	72,242				72,242		72,242
Administration	281,650				281,650		281,650
Public safety	193,403				193,403		193,403
Public works	229,332				229,332		229,332
Fire	14,838				14,838		14,838
Youth center	29,554				29,554		29,554
Emergency medical service	18,634				18,634		18,634
Education						2,861,081	2,861,081
Capital outlay				4,173	4,173		4,173
Debt service							
Principal			24,196		24,196		24,196
Interest			44,666		44,666		44,666
Other	493	57,328	45		57,866		57,866
Total expenditures	840,146	57,328	68,907	4,173	970,554	2,861,081	3,831,635
Excess (deficiency) of revenues over (under) expenditures	22,725	(8,038)	(26,523)	(4,173)	(16,009)	(180,140)	(196,149)
Other Financing Sources (Uses)							
Operating transfer in	243,687	12,084	5,455	4,173	265,399	83,259	348,658
Operating transfer in from General Government						382,051	382,051
THREA settlement	35,918	2,495			38,413		38,413
Sales tax refund - THREA	(74,287)				(74,287)		(74,287)
Operating transfer out to Component Unit	(382,051)				(382,051)		(382,051)
Operating transfer out	(96,473)	(2,963)			(99,436)	(83,259)	(182,695)
Total other financing sources (uses)	(273,206)	11,616	5,455	4,173	(251,962)	382,051	130,089
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(250,481)	3,578	(21,068)		(267,971)	201,911	(66,060)
Fund balance, to begin	773,492		35,095		808,587	1,161,316	1,969,903
Prior period adjustment						28,592	28,592
Fund balance, to begin, restated	773,492		35,095		808,587	1,189,908	1,998,495
Fund balance (deficit), to end	\$ 523,011	\$ 3,578	\$ 14,027	\$ -	\$ 540,616	\$ 1,391,819	\$ 1,932,435

CITY OF KLAUWOCK  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
GENERAL FUND AND BUDGETED SPECIAL REVENUE FUNDS  
For the Year Ended June 30, 2002

	GENERAL FUND			BUDGETED SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Taxes	529,000	424,183	(104,817)			
Intergovernmental	410,300	364,106	(46,194)	4,654	39,141	34,487
Charges for services	21,810	23,643	1,833			
Citations	10,000	6,379	(3,621)			
Interest	40,000	39,813	(187)			
Miscellaneous		4,747	4,747		10,149	10,149
Total revenues	<u>1,011,110</u>	<u>862,871</u>	<u>(148,239)</u>	<u>4,654</u>	<u>49,290</u>	<u>44,636</u>
Expenditures						
Council	58,750	72,242	(13,492)			
Administration	170,136	281,650	(111,514)			
Public safety	216,657	193,403	23,254			
Public works	241,011	229,332	11,679			
Fire	14,980	14,838	142			
Youth center	45,387	29,554	15,833			
Emergency medical service	27,910	18,634	9,276			
Other	500	493	7	44,050	57,328	(13,278)
Total expenditures	<u>775,331</u>	<u>840,146</u>	<u>(64,815)</u>	<u>44,050</u>	<u>57,328</u>	<u>(13,278)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>235,779</u>	<u>22,725</u>	<u>(213,054)</u>	<u>(39,396)</u>	<u>(8,038)</u>	<u>31,358</u>
Other Financing Sources (Uses)						
Operating transfers in	101,000	243,687	142,687	39,396	12,084	(27,312)
THREA settlement		35,918	35,918		2,495	2,495
Sales tax refund - THREA settlement		(74,287)	(74,287)			
Operating transfers out to						
Component Unit	(297,720)	(382,051)	(84,331)			
Operating transfers out	<u>(29,000)</u>	<u>(96,473)</u>	<u>(67,473)</u>		<u>(2,963)</u>	<u>(2,963)</u>
Total other financing sources (uses)	<u>(225,720)</u>	<u>(273,206)</u>	<u>(47,486)</u>	<u>39,396</u>	<u>11,616</u>	<u>(27,780)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>10,059</u>	<u>(250,481)</u>	<u>(260,540)</u>		<u>3,578</u>	<u>3,578</u>
Fund balance (deficit), to begin		<u>773,492</u>	<u>773,492</u>			
Fund balance (deficit), to end	<u>\$ 10,059</u>	<u>\$ 523,011</u>	<u>\$ 512,952</u>	<u>\$ -</u>	<u>\$ 3,578</u>	<u>\$ 3,578</u>

CITY OF KLAUOCK  
ENTERPRISE FUNDS  
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Year Ended June 30, 2002

	<u>Total</u>
<b>OPERATING REVENUES</b>	
Charges for services	
Water	146,444
Refuse collection	140,081
Sewer	123,904
Dumpsite	111,653
Harbor	13,076
Rents	215,853
Liquor store	1,106,525
Total operating revenues	<u>1,857,536</u>
<b>OPERATING EXPENSES</b>	
Operations	1,642,074
Depreciation	341,853
Total operating expenses	<u>1,983,927</u>
Operating income (loss)	<u>(126,391)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest income	16,144
Interest expense	(10,733)
Donations - landfill	78,889
Federal capital grants	433,879
State capital grants	128,312
Total non-operating revenues (expenses)	<u>646,491</u>
Income (loss) before operating transfers	<u>520,100</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Operating transfers in	77,724
Operating transfers out	(243,687)
Total operating transfers	<u>(165,963)</u>
Net income (loss)	354,137
Depreciation on fixed assets acquired from grants	<u>225,678</u>
Increase (decrease) in retained earnings	<u>579,815</u>
Retained earnings, to begin	1,005,683
Prior period adjustment	(829,401)
Retained earnings, to begin (restated)	<u>176,282</u>
Retained earnings, to end	<u>\$ 756,097</u>

CITY OF KLAUOCK  
ENTERPRISE FUNDS  
COMBINED STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2002

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	1,892,336
Cash payments to employees for services	(423,290)
Cash payments to suppliers for goods and services	(1,041,015)
Net cash provided by operating activities	<u>428,031</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of fixed assets	(639,914)
Capital contributions	475,289
THREA settlement	78,889
Interest paid	(10,733)
Principal payments on debt	(33,491)
Net cash used for capital and related financing activities	<u>(129,960)</u>
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES</b>	
(Increase) decrease in due from other funds	(46,950)
Transfer from other funds	77,724
Transfers to other funds	(243,687)
Increase (decrease) in due to component unit	
Increase (decrease) in due to other funds	(81,336)
Net cash used for non capital financing activities	<u>(294,249)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	16,145
Advance to other fund	(99,803)
Net cash used from investing activities	<u>(83,658)</u>
Net decrease in cash and cash equivalents	(79,836)
Beginning cash and cash equivalents	<u>311,083</u>
Ending cash and cash equivalents	<u>\$ 231,247</u>
 <b>Operating income (loss)</b>	
	<u>(126,391)</u>
<b>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</b>	
Depreciation	341,853
Decrease (increase) in accounts receivable	43,000
Decrease (increase) in deposits	(1,395)
Decrease (increase) in inventory	6,512
Increase (decrease) in accounts payable	96,450
Increase (decrease) in sales taxes payable	4,290
Increase (decrease) in accrued expenses	21,342
Increase (decrease) in accrued leave payable	15,856
Increase (decrease) in landfill closure liability	34,714
Increase (decrease) in deferred revenue	(8,200)
Total adjustments	<u>554,422</u>
Net cash provided by operating activities	<u>\$ 428,031</u>

See accompanying notes to the financial statements.

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Klawock (the "City") have been prepared in conformity with generally accepted accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**A. Reporting Entity**

The City of Klawock is a first class city operating under the powers granted by the constitution and laws of the State of Alaska. The City operates under a Council/Mayor form of government and provides a variety of municipal services, including general administration, police, fire, recreation, health, education, public works, ports and harbors, solid waste collection and disposal, and water and sewer utilities. As required by GAAP, these financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The Klawock City School District is a discretely presented component unit and is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the City. The component unit has a June 30 year end.

Complete financial statements for the component unit may be obtained at the entity's administrative office:

Klawock City School District  
P.O. Box 9  
Klawock, AK 99925

Pursuant to Alaska Statutes, Title 29.43.030, the City has the responsibility of establishing, maintaining and operating a system of public schools. The City has delegated the administrative responsibility for these functions to the School Board of the Klawock City School District (the "District"). The citizens of Klawock elect the members of the Klawock School Board. However, the District is fiscally dependent upon the City because the City's council approves the District's budget, levies taxes (if necessary) and must approve any debt issuances. The District is presented as a governmental fund type.

The District is subject to the requirements for the State of Alaska Department of Education's Uniform Chart of Accounts.

Excluded from the reporting entity:      None



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation - Fund Accounting**

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked moneys, resources for and payment of general long-term debt principal, interest and other related costs, and the acquisition or construction of general fixed assets.

The General Fund is used to account for all financial resources of the general government except those required to be accounted for in some other fund.

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary funds are used to account for activities similar to those found in the private sector, where determination of net income is necessary or useful to sound financial administration.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Enterprise Fund is used to account for the operation and maintenance of water, sewer, refuse, dumpsite, harbor, and liquor store facilities and services. It is the intent of the City that the costs (expenses including depreciation) of providing services to the general public be financed or recovered primarily through user charges. The acquisition, maintenance, and improvement of the physical plant facilities and equipment required to provide these services are financed from existing cash resources, user charges, and state grants.

Account groups are self-balancing groups of accounts established to provide accountability and control for general fixed assets and unmaturred general long-term debt.

General Fixed Asset Account Group - Because governmental funds report the flow of only current financial resources, the General Fixed Asset Account Group is used to report and account for the assets acquired through those activities. Assets of the Enterprise Fund are recorded within that fund.

The General Long-Term Debt Account Group is used to account for the City's unmaturred long-term indebtedness that has not been identified as a specific liability of the Enterprise Fund.

**C. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus and use the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The City applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations. Statement Number 20 of the Government Accounting

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Standards Board (GASB), Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, requires that proprietary activities follow GASB pronouncements. It also allows proprietary activities to elect either to follow, or not to follow, Financial Accounting Standards Board (FASB) Statements and Interpretations, which are not in conflict with GASB pronouncements and have been issued after November 30, 1989. All of the City's funds which use proprietary fund accounting have elected to follow only GASB pronouncements subsequent to November 30, 1989.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due. Those revenues susceptible to accrual are licenses, interest revenue and charges for services.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has legal claim to them, as when grant moneys are received prior to incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**D. Budgets**

Before June 30, the proposed budget is presented to the government's council for review. The government's council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget.

Subject to council approval by resolution, the Mayor may: 1) establish line item expenditures within an authorized appropriation; and/or 2) transfer from one authorized appropriation to another any amount which would not annually exceed ten percent or \$10,000, whichever is less. The City does not prepare budgets for some of its special

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

revenue funds. "Appropriation" is not defined in the ordinance establishing the transfer and expenditure restrictions.

The adopted School Operating Fund budget is submitted to the City by April 1 for approval. The City may increase or decrease the District budget in total only, and shall approve the budget and local appropriation at least sixty days prior to the end of the current fiscal year of the District. The School Board submits the approved budget to the State Commissioner of Education 30 days before the end of the current fiscal year of the District for review to determine compliance with Alaska statutes and Department regulations.

The School Board authorizes formal budget revisions several times each year to adjust the revenues and expenditures to available resources and program needs. Expenditure authority for the School Operating Fund is limited to the total approved budget. There are no specific line item or category limitations.

Annual budgets of the District's Grant Funds are prepared in connection with the application for the special program's funding and are reviewed and approved by the School Board. Expenditure authority for special revenue fund programs is limited to the actual combined revenues and transfers from other funds.

Project budgets are adopted for the various construction funds based on the lives of the construction projects. Because an annual budget for these funds is not adopted, the capital project funds are not aggregated on the Combined Statement of Revenues and Expenditures - Budget and Actual.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting--under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded in order to reserve that portion of the applicable appropriation is utilized by the School District.

Encumbrance accounting is employed as an extension of formal budgetary integration in the School Operating Fund, the School Grants Fund and the School Capital Projects fund. Encumbrances, if any, outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Cash and Investments**

The City uses a central treasury to aggregate cash from most funds for cash management and investment purposes. Each fund has an account titled "due to/from other funds" which includes the cash balance of that particular fund. The deposits and investments of the District are held separately from those of other City funds. There are no statutory limitations on the type of investments allowed. Investments are stated at lower of cost or market.

For purposes of the statement of cash flows, the City has defined cash and cash equivalents as the demand deposits and all investments in the central treasury since the various funds use the central treasury essentially as a demand deposit account.

**F. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**G. Inventories**

Except for the District, inventories consist primarily of material acquired for the liquor store and construction projects, but not sold or applied to any project as of June 30, 2002. The inventories are carried at cost.

The District's inventories are valued at lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**H. Fixed Assets**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records exist and at an estimated historical cost where no historical records exist.

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized along with other general fixed assets as these assets are immovable and of value only to the government.

Assets of the general fixed asset group are not depreciated. Depreciation on property, plant and equipment associated with the enterprise fund is calculated using the straight-line method based on estimated useful lives of the assets.

Contributions in aid of construction in the enterprise fund are being amortized over the estimated economic life of the fixed assets. The estimated useful lives are as follows:

Water system	50 years
Equipment	3 to 10 years
Harbor improvements	30 years

**I. Fund Equity**

Reserves represent those portions of fund equity not available for appropriation or for expenditure and are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. There were no designated fund balances at June 30, 2002.

Reserved fund balances are comprised of:

Loan guarantee – amount in bank certificate of deposit that is legally restricted as guarantee funds by loan covenants.

Contingencies - the estimated amount which may have to be repaid to the Federal government for errors in prior years' Federal funding applications.

Inventory - purchases, mainly food and fuel, for use in subsequent periods.

Prepaid expenses - principally insurance premium prepayments for subsequent periods.

Statutory P. L. 874 - revenues received for use during the following year.

CITY OF KLAUOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Unreserved fund balances are segregated into those designated for future use but available for appropriation and other purposes and those undesignated and available for appropriation.

**J. Compensated Absences**

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Sick leave accrues to each employee. Sick leave accumulates without limit, but the unused leave is not paid upon termination.

**K. Memorandum Only - Total Columns**

Total columns on the general-purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**L. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

At June 30, 2002, the carrying amount of the City's deposits including money held by agents, exclusive of the District was \$1,309,059 and the bank balances were \$1,307,259. Deposits are held in three separate banks. Of the bank balances, \$225,633 was covered by federal depository insurance, \$1,230,341 was collateralized under tri-party agreements with two banks and \$76,918 was uninsured and uncollateralized.

CITY OF KLAUOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Amounts held in two certificates of deposit totaling \$225,000 are required security for two loans from the State of Alaska Department of Environmental Conservation ("DEC"). Withdrawal of the funds requires approval of both the City and the DEC.

All of the District's bank balances held at First Bank are insured by FDIC to a maximum of \$100,000. The District has a tri-party agreement with First Bank and the Bank of New York under which government bonds are held as collateral for the District's deposits. The market value of the government bonds at June 30, 2002 was \$1,892,002. Major Maintenance Capital Project Funds of \$215,727 are insured through Southeast Regional Resource Center's collateral agreement.

Components of cash and cash equivalents are categorized into the following three categories of credit risk:

1. Insured or collateralized with securities held by the District or by its agent in the District's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the District's name.

Investments are categorized into the following types of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the District's name.
3. Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the District's name.



CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

Components of deposits and investments at June 30, 2002:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
City Cash and cash equivalents		
Category 1:		
Demand deposits	242,797	266,423
Certificates of deposit	989,344	989,344
Category 3:		
Demand deposits	76,918	76,918
Total City cash and cash equivalents	<u>\$1,309,059</u>	<u>\$1,332,685</u>
District		
Category 1:		
Demand deposits	318,300	371,248
Category 3:		
Money market funds	210,389	210,389
Certificates of deposit	965,355	968,372
Total District cash and cash equivalents	<u>\$1,494,044</u>	<u>\$1,550,009</u>

**NOTE 3 - RECEIVABLES**

Primary government receivables at June 30, 2002 consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital</u>	<u>Enterprise</u>
Receivables:					
Accounts	26,484				243,667
Intergovernmental	7,564	13,383		1,973	120,540
Sales tax	150,557				
Special assessments			897,348		
Gross receivables	<u>184,605</u>	<u>13,383</u>	<u>897,348</u>	<u>1,973</u>	<u>364,207</u>
Less: allowance for uncollectible accounts	<u>26,484</u>				<u>225,309</u>
	<u>\$158,121</u>	<u>\$13,383</u>	<u>\$897,348</u>	<u>1,973</u>	<u>\$138,898</u>

The component unit had no allowance for uncollectible accounts.

CITY OF KLAWOCK  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2002

**NOTE 4 - INTERFUND BALANCES**

Due to/from other funds consists of the following individual balances in the corresponding funds:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund		158,597
Holiday Fund		5,429
Water/Sewer Fund		268,717
Rents and Leases Fund	367,045	
Liquor Store Fund	68,267	
Library Fund	3,048	
Coastal Zone Management Fund		750
3-Mile D/E Water Intake Structure Fund	1,973	
Heritage Fund		6,840
Component Unit	661,977	661,977
	<u>\$1,102,310</u>	<u>\$1,102,310</u>

The following is a schedule of interfund transfers:

<u>From</u>	<u>To</u>	<u>Amount</u>
<b>City of Klawock</b>		
General Fund	Holiday Fund	9,044
General Fund	Debt Service Fund	5,455
General Fund	Library Fund	1,644
General Fund	Coastal Zone Management Fund	1,396
General Fund	Carvers' Shed Fund	1,210
General Fund	Water, Sewer, Refuse & Harbor	77,724
Heritage Fund	Carvers' Shed Fund	2,963
Liquor Store / Pull Tabs	General Fund	74,000
Lease & Rents Enterprise	General Fund	169,687
		<u>\$343,123</u>

**NOTE 5 - CONTINGENT LIABILITIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 5 - CONTINGENT LIABILITIES (CONTINUED)**

The District contracted to have Phase 1 of the Major Maintenance Capital Project completed during fiscal year ended June 30, 2000. At the termination date of construction, the contractor claimed amounts were still owed for services rendered.

The District and contractor entered litigation, and consequently agreed to settle for \$135,218. The District paid the contractor on July 26, 2002. The \$135,218 is included in accounts payable in the Major Maintenance Capital Project Fund at June 30, 2002.

**NOTE 6 - FIXED ASSETS**

The following is a summary of changes in the general fixed assets account group during the year.

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Furniture	20,088			20,088
Vehicles	305,653			305,653
Equipment	446,995			446,995
Parks	4,789			4,789
Buildings and structures	1,937,634	104,477		2,042,111
Totals	<u>\$2,715,159</u>	<u>\$104,477</u>		<u>\$2,819,636</u>

The following is a summary of changes in enterprise funds fixed assets during the year:

	Water, Sewer, Refuse and Harbor	Liquor Store
Fixed assets 6/30/01	13,125,295	109,381
Work in process additions	639,914	
Work in process completions		
Additions		
Deletions		
Fixed assets 6/30/02	<u>\$13,765,209</u>	<u>\$109,381</u>
Accumulated depreciation	2,725,266	53,010
Depreciation expense	330,915	10,938

The District's general fixed assets, which consist of furniture and equipment, are valued at \$565,641

CITY OF KLAWOOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS**

The City and District employees participate in two pension plans. City employees and eligible classified District employees participate in the State of Alaska's Public Employee Retirement System (PERS). All certified District employees participate in the State of Alaska's Teacher Retirement System (TRS).

Teachers' Retirement System (TRS)

*Plan Description:* The District contributes to the State of Alaska TRS system, a cost-sharing multiple-employer defined pension plan administered by the Division of Retirements and Benefits. TRS provides retirement and disability benefits, annual cost-of-living adjustments, post-employment healthcare benefits, and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Division of Retirements and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for TRS. That report may be obtained by writing to:

Department of Administration  
Division of Retirements and Benefits  
PO Box 110203  
Juneau, Alaska 99811  
(907) 465-4460

Funding Policy: Plan members are required to contribute 8.65% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current rate is 11% of annual covered payroll. The contribution rates of plan members are established by state law and may be amended only by the State Legislature. The employer contribution rates are established and may be amended by the TRS Board. The District's contributions to TRS for the years ended June 30, 2002, 2001, and 2000 were \$124,473, \$138,428, and \$129,594, respectively, equal to the required contribution for each year.

Public Employees' Retirement System (PERS)

The City's and the District's defined benefit pension plan for non-certified employees, the State of Alaska Public Employees' Retirement System, provides retirement and disability benefits, annual cost-of-living adjustments, post-employment healthcare benefits, and death benefits to plan members and beneficiaries. PERS is an agent multiple-employer pension plan administered by the Division of Retirements and Benefits. Benefit and contribution provisions are established by State law and may be

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)**

amended only by the State Legislature. The Division of Retirements and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to:

Department of Administration  
Division of Retirements and Benefits  
PO Box 110203  
Juneau, Alaska 99811  
(907) 465-4460

*Funding Policy:* Until July 1, 2000, plan members were required to contribute 6.75% of their annual covered salary, as required by statute. Effective July 1, 2000, plan members were required to choose whether to have their service treated as a full year when they actually worked less than a full year (alternate class), or to have their service counted for what they actually worked (standard class). Plan members in the alternate class are required to contribute 8% of their annual covered salary. Plan members in the standard class are required to contribute 6.75% of their annual covered salary. The City and the District are required to contribute at actuarially determined rates; the rates for the year ended June 30, 2002 are 4.23% for the City and 9.40% for the District of covered payroll. The contribution requirements of plan members are set by statute. The City's and District's contribution requirements are established by, and may be amended by, the PERS Board.

*Annual Pension Cost (APC):* During FY02, the City's annual pension cost of \$26,149 and the District's annual pension cost of \$39,399 for PERS was equal to the required and actual contribution. The required contribution was determined as part of the June 30, 1999 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions include: (a) 8.25% investment rate of return, net of expenses; (b) projected salary increases of 5.5% per annum; (c) health cost trend inflation of 6.5% for 2002, 5.5% for 2003, and 5.0% for 2004; and (d), 4% per year total inflation. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. PERS uses the level dollar method to amortize the unfunded liability over an open, rolling 25-year period. Funding surpluses are amortized over five years. The following table shows the three-year trend information for PERS:

CITY OF KLAUOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
City			
06/30/00	15,436	100%	0
06/30/01	21,925	100%	0
06/30/02	19,021	100%	0
District			
06/30/00	16,810	100%	0
06/30/01	23,064	100%	0
06/30/02	28,843	100%	0

*Annual Post-Employment Healthcare Cost (APHC):* During FY02, the annual post-employment healthcare cost of \$7,128 for the City and \$10,556 for the District was equal to the required and actual contribution. The required contribution was determined as part of the June 30, 1999 actuarial valuation using the projected unit credit actuarial funding method. The actuarial assumptions include: (a) 8.25% investment rate of return, net of expenses; (b) projected salary increases of 5.5% per annum; (c) 4% per year total inflation; and (d) health cost inflation: 6.5% for 2002, 5.5% for 2003, and 5.0% for 2004. The actuarial value of PERS' assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. PERS uses the level dollar method to amortize the unfunded liability over an open, rolling 25-year period. Funding surpluses are amortized over five years. The following table shows the three-year trend information for PERS:

Fiscal Year Ending	Annual Post- Employment Healthcare Cost (APHC)	Percentage of APHC Contributed	Net Pension Obligation
City			
06/30/00	4,322	100%	0
06/30/01	3,533	100%	0
06/30/02	7,128	100%	0
District			
06/30/00	5,603	100%	0
06/30/01	7,687	100%	0
06/30/02	10,556	100%	0

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)**

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Three-year trend information for the City of Klawock is included in the tables below (thousands omitted):

	Pension			Post-Employment Health		
	1998	1999	2001	1998	1999	2001
<u>City</u>						
Actuarial value of assets	959	1,023	1,075	357	415	456
Actuarial accrued liability (AAL)						
projected unit credit	778	840	894	289	341	379
Funded ratio	123%	122%	120%	124%	122%	120%
Unfunded AAL (UAAL)	-181	-183	-181	-68	-74	-77
Annual covered payroll	377	524	481	377	524	481
UAAL as a percent of covered payroll	-48%	-35%	-38%	-18%	-14%	-16%
<u>District</u>						
Actuarial value of assets	347	377	434	130	154	184
Actuarial accrued liability (AAL)						
projected unit credit	339	394	576	126	160	244
Funded ratio	102%	96%	75%	103%	96%	75%
Unfunded AAL (UAAL)	-8	17	146	-4	6	62
Annual covered payroll	263	272	396	263	272	396
UAAL as a percent of covered payroll	-3%	6%	37%	-2%	2%	16%

**NOTE 8 - LONG-TERM DEBT**

CITY

The City has an obligation to the State of Alaska, Department of Transportation for repayment of a 1995 paving grant because funds from that grant were not used for an allowable purpose. The City currently has an agreement with the State of Alaska to return the balance at 0% interest in \$500 monthly payments until such time that the payments can be increased to \$1,000 per month. The balance of this loan at June 30, 2002 is \$22,302. That obligation is recorded in the general long-term debt account group.

In fiscal year ended June 30, 1997, the City entered into an agreement with the State of Alaska Department of Environmental Conservation ("DEC") for a \$150,000 loan for partial funding for the design of a primary sewer treatment plant. Interest accrues at

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

3.75 percent per annum (changed to 2.5% on December 29, 2000). The payback period for principal and interest is 20 years with annual payments based on a schedule provided by DEC. As security for the loan, the City was required to establish a certificate of deposit in trust for the State of Alaska in the amount of \$75,000. That deposit is reported on the water, sewer, refuse and harbor enterprise fund balance sheet under the heading "time certificate of deposit collateral". The debt is recorded in the water, sewer, refuse and harbor enterprise fund with a balance at June 30, 2002 of \$138,440.

In fiscal year ended June 30, 1998, the City entered into an agreement with the State of Alaska Department of Environmental Conservation ("DEC") for a \$300,000 loan for partial funding for the sewer force main construction project. Interest accrued at 3.75 percent per annum (changed to 2.5% on December 29, 2000). The payback period for principal and interest is 20 years with annual payments based on a schedule provided by DEC. As security for the loan, the City was required to establish a certificate of deposit in trust for the State of Alaska in the amount of \$150,000. That deposit is reported on the water, sewer, refuse and harbor enterprise fund balance sheet under the heading "time certificate of deposit collateral". The debt is recorded in the water, sewer, refuse and harbor enterprise fund with a balance at June 30, 2002 of \$276,810.

In fiscal year ended June 30, 2000, the City issued \$832,000 in bonds to the U.S. Department of Agriculture ("USDA") to finance the initial costs of extending water and sewer services to the Mary Jackson Subdivision, a new housing development. The proceeds of the bonds paid off an interim \$832,000 bond anticipation note from the National Bank of Alaska. The bonds bear interest at 4.75% with semi-annual payments of \$23,329 and mature 40 years after issuance. A Local Improvement District ("LID") assessment against the benefited properties will provide the revenues for payment of the bonds. The LID assessment bears interest at the same 4.75% rate as the bonds. The bonds are recorded in the general long-term debt account group with a balance of \$805,496 at June 30, 2002 and the LID assessment receivable balance of \$801,500 at June 30, 2002 is recorded in the debt service fund.

In fiscal year ended June 30, 2000, the City issued a \$127,000 note to the Alaska Department of Community and Regional Affairs, Division of Energy ("DCRA") to finance the costs of extending electrical services to the Mary Jackson Subdivision. The note bears interest at 5.4% with semi-annual payments of \$8,354 and matures 10 years after issuance. A Local Improvement District ("LID") assessment against the benefited properties will provide the revenues for payment of the note. In addition, the City has



CITY OF KLAUOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

pledged its general revenues for payment of the note. The LID assessment bears interest at 5% per annum. The note balance of \$101,923 at June 30, 2002 is recorded in the general long-term debt account group and the LID assessment receivable balance of \$95,848 at June 30, 2002 is recorded in the debt service fund.

The requirements to amortize, for the next five years and thereafter to maturity, the long-term obligations outstanding, including interest, are as follows:

General long-term debt account group:

	Alaska DOT Note	USDA Bond	DCRA Note	Totals
2003	6,500	46,659	16,707	69,866
2004	6,000	46,659	16,707	69,366
2005	6,000	46,659	16,707	69,366
2006	3,802	46,659	16,707	67,168
2007		46,659	16,707	63,366
Later		1,469,744	41,767	1,511,511
Totals	<u>\$22,302</u>	<u>\$1,703,039</u>	<u>\$125,302</u>	<u>\$1,850,643</u>

Enterprise funds:

	1997 DEC Note	1998 DEC Note	Totals
2003	9,816	19,626	29,442
2004	9,816	19,626	29,442
2005	9,816	19,626	29,442
2006	9,816	19,626	29,442
2007	9,816	19,626	29,442
Later	122,700	245,325	368,025
Totals	<u>\$171,780</u>	<u>\$343,455</u>	<u>\$515,235</u>

Interest included in the totals for the obligations is as follows:

Alaska DOT note	\$0
USDA bond	\$897,553
DCRA note	\$23,379
1997 DEC note	\$33,340
1998 DEC note	\$66,645

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 8 – LONG-TERM DEBT (CONTINUED)**

The amount of \$14,027 was available in the debt service fund to service the general long-term debt.

During the year ended June 30, 2002, the following changes occurred in long-term liabilities reported in the general long-term debt account group and the proprietary funds:

<b>General Long-term Debt Account Group</b>				
	Payable July 1, 2001	Additions	Deletions	Payable June 30, 2002
Special assessment debt	926,114		18,695	907,419
Long-term note	27,802		5,500	22,302
Totals	<u>\$953,916</u>		<u>\$24,195</u>	<u>\$929,721</u>

<b>Enterprise Funds</b>				
	Payable July 1, 2001	Additions	Deletions	Payable June 30, 2002
Revenue bond	14,779		14,779	
Long-term notes	433,959		18,709	415,250
Landfill closure costs	17,500	850,345		867,845
Totals	<u>\$466,238</u>	<u>\$850,345</u>	<u>\$33,488</u>	<u>\$1,283,095</u>

As discussed in Note 14, \$815,631 of the addition to landfill closure costs was a prior period adjustment. The current year addition was \$34,714.

**NOTE 9 - LANDFILL CLOSURE AND POST CLOSURE CARE COST**

State and federal laws and regulations require the City to place a final cover on its landfill and maintain and monitor the site for thirty years after closure. Although closure cost and post closure cost will only be paid near or after the closure date, the City reports a portion of these costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$867,845 reported landfill closure and post closure liability at June 30, 2002 represents the cumulative amount reported to date based on closing of 10.3 acre Part 1 of a 2-Part 28.8-acre landfill. The City will recognize the Part II estimated cost of \$868,140 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post

CITY OF KLAUOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 9 - LANDFILL CLOSURE AND POST CLOSURE CARE COST (CONTINUED)**

closure care in 2002. The City expects to close the landfill in the year 2048. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. Currently the City has no plans to finance these costs, so the costs may need to be covered by charges to future landfill users or from future tax revenue.

**NOTE 10 - OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Generally accepted accounting principles require disclosure, as part of the Combined Statements - Overview, of certain information concerning individual funds including:

- A. The City maintains three enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. Financial segment information as of, and for the year ended, June 30, 2002 is as follows:

	Water, Sewer, Refuse and Harbor	Rents and Leases	Liquor Store
Operating revenues	535,158	215,853	1,106,525
Depreciation expense	330,915		10,938
Amortization of contributions in aid of construction	225,678		
Operating interfund transfers in (out)	77,724	(169,687)	(74,000)
Fixed assets 6/30/01	13,125,295		109,381
Additions	639,914		
Deletions			
Fixed assets 6/30/02	13,765,209		109,381
Material long-term liabilities, paid directly from operating revenues	1,283,095		
Operating income (loss)	(363,216)	159,203	77,622
Net income (loss)	297,064		57,073
Working capital	(86,764)	346,372	465,394
Total assets	11,438,644	373,385	558,800
Total equity	9,689,263	346,372	521,765
Current capital contributions and transfers	562,191		

- B. Summary disclosures of debt service requirements to maturity for all types of outstanding debt. This requirement is met in Note 8 - Long-Term Debt.

- C. Summary disclosures of changes in general fixed assets by major class. This requirement is met in Note 6 - Fixed Assets.

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 9 - LANDFILL CLOSURE AND POST CLOSURE CARE COST (CONTINUED)**

- D. Summary disclosures of changes in general long-term debt. This requirement is met in Note 8 - Long-Term Debt.
- E. Deficit fund balances or retained earnings balances of individual funds are as follows: Water, Sewer, Refuse and Harbor (\$112,040)
- F. Individual fund interfund receivable and payable balances. This requirement is met by Note 4 - Interfund Balances.
- G. Excess of expenditures over appropriations in individual funds: General Fund (\$216,619), Library Fund (\$2,180) and Holiday Fund (\$11,099) for the City, and Food Service Fund (\$11,950) for the District.

**NOTE 11 - COMPENSATED ABSENCES**

All regular full-time and part-time employees of the City accrue sick leave which is available for use while employed. Sick leave is paid out at the employee's base pay rate at the time the sick leave is used. There is no provision for payment of the accrued sick leave upon termination of employment. Sick leave has not been accrued on the financial statements.

Vacation is accrued and paid at the employee's base pay rate at the time the vacation time is used. Accrued vacation time for the City does not include the employer's portion of PERS, social security, and Medicare that are estimated at \$7,000.

**NOTE 12 - LEASES**

City as Lessee

The City entered into a lease agreement with Klawock Heenya Corporation for facilities in which to operate the City's liquor store. The original lease has expired and terms for a new long-term lease have not been agreed upon. The City has been paying rent on a month-to-month basis at \$2,200 per month.

City as Lessor

In fiscal year 1994, the City entered into an agreement to lease ground to Williams, Inc., commencing March 1, 1994, with monthly payments of \$600. The lease term is for 20

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 12 – LEASES (CONTINUED)**

years with an option to renew the lease up to 4 additional consecutive periods of 5 years. Williams, Inc. paid for improvements to the land in exchange for rent and at June 30, 2001 had a prepaid rent balance of \$28,763. In the fiscal year ended June 30, 2002, the lease was terminated and the City retained the prepayment.

In fiscal year 1999, the City entered into an agreement to lease ground to PTI Communications, commencing December 1, 1998, with annual payments of \$960. The lease term is for 20 years.

In fiscal year 1977, the City entered into an agreement to lease ground to Alascom, Inc. Commencing March 3, 1992, annual payments are \$1,645. The lease term is for 20 years from March 3, 1977 with an option to renew the lease up to 3 additional consecutive periods of 5 years.

In fiscal year 1994, the City entered into an agreement to lease a lot to B-3 Contractors, commencing April 1, 1994, with monthly payments of \$833. The lease term is for 20 years with an option to renew the lease for up to 4 additional consecutive periods of 5 years each.

In fiscal year 1991, the City entered into an agreement to lease ground to Ray Medina, commencing December 10, 1991, with monthly payments of \$365. The lease term is for 20 years.

In fiscal year 1995, the City entered into an agreement to lease ground to Sylvester Williams, commencing November 1, 1994, with monthly payments of \$137, adjusted by the CPI every 5 years. The lease term is for 20 years with an option to renew the lease for up to 4 additional consecutive periods of 5 years each. Williams transferred the lease to Bolts Inc. in FY 2000.

The City entered into an agreement to lease ground to Marvin and Wanda Benston, commencing May 10, 1994, with monthly payments of \$592. The lease term is for 20 years with options to renew the lease for up to 2 additional consecutive periods of 5 years each. This lease was terminated near the end of the 2003 fiscal year.

The City entered into an agreement to lease a portion of the Youth Center building to Tlingit-Haida Central Council Headstart for monthly payments of \$350 from June through August and \$700 from September through May.

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 12 – LEASES (CONTINUED)**

The following are the expected minimum future rentals for the next five years for the leases noted above:

FY2003	25,728
FY2004	18,624
FY2005	18,624
FY2006	18,624
FY2007	18,624
Total	<u>\$100,224</u>

**NOTE 13 - RISK MANAGMENT**

The City of Klawock is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters. During Fiscal Year 2002, the City of Klawock obtained commercial insurance for these risks. The City's insurance coverage includes \$11 million, general liability; \$3.66 million, buildings and contents combined; \$1 million, public official and employee liability; \$1 million, auto liability; \$1 million employer's liability; \$1 million law enforcement professional liability; \$100,000 employee dishonesty bond and workers compensation insurance at statutory levels. Settled claims resulting from these risks did not exceed insurance coverage for the period including FY02.

During FY02, the KCSD obtained commercial insurance for the risks noted above. The KCSD's insurance coverage includes: \$1 million per occurrence and \$3 million aggregate, general liability; \$7.6 million, building and personal property; \$4 million umbrella and workers' compensation at the statutory amount. Settled claims resulting from these risks did not exceed commercial coverage during FY02.

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

The Water, Sewer, Refuse and Harbor Enterprise Fund retained earnings (deficit) at the beginning of the year was restated by \$815,631 to recognize the liability for estimated cost as of June 30, 2001 of the landfill closure and postclosure care not yet paid or accrued. The cost estimate had been completed prior to June 30, 2001 but was not recorded in those books. The fund's retained earnings (deficit) at the beginning of the year was also restated by \$13,770 to correct the period of recognition of moorage fees billed in advance.

CITY OF KLAWOCK  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2002

**NOTE 14 – PRIOR PERIOD ADJUSTMENT (CONTINUED)**

In prior years, the amounts reported as accounts receivable and accounts payable in the School Operating Fund were misstated. The District has recorded a prior period adjustment for \$28,592 as of June 30, 2002 to increase fund equity.

**NOTE 15 – LOAN COVENANT COMPLIANCE**

The City has bonds and various long-term loans outstanding, as discussed in Note 8. Both of the notes to the State of Alaska Department of Environmental Conservation have a provision that the City "... will establish, maintain and collect rates and charges for all services or facilities supplied by the System (sewage collection and treatment system of the City) in each fiscal year that will provide Net Revenues in an amount equal to at least 1.25 times the amount of the annual debt service requirement for such year on the Loan ..." The sewer system net revenues, as defined in the notes, were insufficient to comply with this loan covenant for the fiscal year 2002.

COMBINING, INDIVIDUAL FUND AND ACCOUNT GROUP STATEMENTS  
AND SCHEDULES



## GENERAL FUND

The General Fund is the operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF KLAUOCK  
GENERAL FUND  
BALANCE SHEET  
June 30, 2002

ASSETS

Cash	65,671
Cash invested in time certificate of deposit	764,344
Receivables (net of allowance for uncollectibles)	
Sales tax	150,557
Prepaid expenses	220
Due from other governments	7,564
Total assets	<u>\$ 988,356</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	45,175
Advances from other funds	99,803
Due to component unit	11,365
Payroll and payroll taxes payable	16,724
Annual leave payable	11,854
Due to other funds	158,597
Deferred sales tax revenue	37,000
Deferred grant revenue	84,827
Total liabilities	<u>465,345</u>

Fund balance

Unreserved	<u>523,011</u>
Total fund balance	<u>523,011</u>

Total liabilities and fund balance	<u>\$ 988,356</u>
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CITY OF KLAUOCK  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Sales tax revenue	517,000	420,875	(96,125)
Transient tax	12,000	3,308	(8,692)
Intergovernmental			
State revenue sharing	31,500	21,438	(10,062)
Fisheries tax	6,200	5,115	(1,085)
Forest receipts	317,600	237,054	(80,546)
Payment in lieu of taxes	55,000	77,423	22,423
COPS FAST grant		4,086	4,086
Safe communities program		13,915	13,915
Other state grants		5,075	5,075
Charges for services			
Fees for services rendered	21,810	23,643	1,833
THREA settlement		35,918	
Citations	10,000	6,379	(3,621)
Interest	40,000	39,813	(187)
Donations		2,977	2,977
Youth center merchandise sales		1,770	1,770
Total revenues	1,011,110	898,789	(148,239)
Expenditures			
Council	58,750	72,242	(13,492)
Administration	170,136	281,650	(111,514)
Public safety	216,657	193,403	23,254
Public works	241,011	229,332	11,679
Fire	14,980	14,838	142
Youth center	45,387	29,554	15,833
Emergency medical service	27,910	18,634	9,276
Other	500	493	7
Total expenditures	775,331	840,146	(64,815)

See accompanying notes to the financial statements.

CITY OF KLAWOCK  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Excess (deficiency) of revenues over (under) expenditures	<u>235,779</u>	<u>58,643</u>	<u>(177,136)</u>
Other Financing Sources (Uses)			
Operating transfers in	101,000	243,687	142,687
Sales tax refund - THREA settlement		(74,287)	(74,287)
Operating transfers out to Component Unit	(297,720)	(382,051)	(84,331)
Operating transfers out	<u>(29,000)</u>	<u>(96,473)</u>	<u>(67,473)</u>
Total other financing sources (uses)	<u>(225,720)</u>	<u>(309,124)</u>	<u>(83,404)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	10,059	(250,481)	(260,540)
Fund balance (deficit), to begin	<u>                    </u>	<u>773,492</u>	<u>773,492</u>
Fund balance (deficit), to end	<u>\$ 10,059</u>	<u>\$ 523,011</u>	<u>\$ 512,952</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
GENERAL FUND  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
<b>COUNCIL</b>			
Stipends, taxes & benefits	36,260	31,210	5,050
Travel, per diem & training	2,000	697	1,303
Promotional & donations	4,000	4,367	(367)
Professional and legal	13,000	34,306	(21,306)
Elections expense	500	1,040	(540)
Materials & supplies		313	(313)
Miscellaneous	2,990	309	2,681
	<u>58,750</u>	<u>72,242</u>	<u>(13,492)</u>
<b>ADMINISTRATION</b>			
Personnel	127,786	126,787	999
Travel, per diem & training	2,900	9,798	(6,898)
Contract services	600	1,119	(519)
Equipment purchases & rents	8,000	108,628	(100,628)
Professional fees	1,500	1,185	315
Insurance	4,500	5,096	(596)
Building & equipment repairs	5,000	6,373	(1,373)
Postage & freight	1,000	1,612	(612)
Office & general supplies	6,000	4,443	1,557
Membership & dues	150	125	25
Advertising & publications	500	242	258
Utilities	10,000	9,957	43
Interest & lates charges	2,000	1,316	684
Miscellaneous	200	4,969	(4,769)
	<u>170,136</u>	<u>281,650</u>	<u>(111,514)</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
GENERAL FUND  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (CONTINUED)  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
<b>PUBLIC WORKS</b>			
Personnel	145,733	118,821	26,912
Travel, per diem & training	2,000		2,000
Contract services	100	1,732	(1,632)
Equipment purchases	9,164	1,302	7,862
Equipment rental	500	530	(30)
Insurance	4,099	5,720	(1,621)
Street maintenance	48,315	41,488	6,827
Building & equipment repairs	15,000	18,123	(3,123)
Supplies & freight	4,000	11,579	(7,579)
Advertising & publications	250		250
Permits & licenses	150	55	95
Utilities	6,700	21,702	(15,002)
Equipment fuel	5,000	6,738	(1,738)
Miscellaneous		1,542	(1,542)
	<u>241,011</u>	<u>229,332</u>	<u>11,679</u>
<b>PUBLIC SAFETY</b>			
Personnel	141,710	130,725	10,985
Travel, per diem & training	3,000		3,000
Contract services	45,000	41,364	3,636
Insurance	9,197	5,813	3,384
Equipment purchases & rental	500	400	100
Equipment & building repairs	2,000	5,177	(3,177)
Materials, supplies & freight	5,000	2,607	2,393
Memberships	150		150
Advertising & publications	300	344	(44)
Utilities	4,750	3,430	1,320
Equipment fuel	5,000	3,493	1,507
Miscellaneous	50	50	
	<u>216,657</u>	<u>193,403</u>	<u>23,254</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
GENERAL FUND  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (CONTINUED)  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
FIRE			
Worker's comp insurance	500	193	307
Travel, per diem and training	3,600		3,600
Equipment purchase	3,500	9,316	(5,816)
Insurance	1,280	1,507	(227)
Building & equipment	2,000	769	1,231
Materials, supplies, & freight	1,000	990	10
Permits & licenses	50		50
Utilities	2,050	1,843	207
Equipment fuel	600	170	430
Miscellaneous	400	50	350
	<u>14,980</u>	<u>14,838</u>	<u>142</u>
YOUTH CENTER			
Cost of merchandise sold		2,587	(2,587)
Personnel	27,557	17,818	9,739
Equipment	4,500	59	4,441
Insurance	2,130	1,161	969
Building & equipment repairs	4,000	1,773	2,227
Supplies	3,500	2,541	959
Utilities	3,700	3,126	574
Communications		452	(452)
Miscellaneous		37	(37)
	<u>45,387</u>	<u>29,554</u>	<u>15,833</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
GENERAL FUND  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (CONTINUED)  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
EMERGENCY MEDICAL SERVICE			
Workers compensation	1,000	386	614
Travel, per diem, & training	5,000	5,529	(529)
Equipment purchases & rental	8,000	3,484	4,516
Insurance	1,960	2,654	(694)
Equipment & building repairs	1,000	910	90
Licenses	100		100
Materials, supplies & freight	4,800	782	4,018
Equipment fuel	1,300	243	1,057
Utilities	4,300	4,577	(277)
Miscellaneous	450	69	381
	<u>27,910</u>	<u>18,634</u>	<u>9,276</u>
DARE	<u>500</u>	<u>493</u>	<u>7</u>
	<u>500</u>	<u>493</u>	<u>7</u>
Total expenditures	<u>775,331</u>	<u>840,146</u>	<u>(64,815)</u>
TRANSFERS			
Transfers to component unit			
Forest receipts passed through city to school	236,120	237,054	(934)
Appropriation to school	61,600	144,997	(83,397)
	<u>297,720</u>	<u>382,051</u>	<u>(84,331)</u>
Transfers to other funds	29,000	96,473	(67,473)
	<u>326,720</u>	<u>478,524</u>	<u>(151,804)</u>
Total expenditures and transfers	<u>\$1,102,051</u>	<u>\$1,318,670</u>	<u>(\$216,619)</u>



## SPECIAL REVENUE FUNDS

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, debt service resources, or major capital projects, that are restricted to expenditures for specified purposes).

Library Fund – To account for grant funds and other monies received to develop and equip a local city library.

Coastal Zone Management - To account for the Klawock Coastal Management Program (KCMP). Funding is provided by the U.S. Department of Interior through the State of Alaska, Department of Community and Regional Affairs.

Holiday Fund - To account for monies donated to or set-aside by the City to fund prizes and various activities for major holiday celebrations.

Heritage Fund – To account for monies received for the preservation of the heritage of Klawock.

CITY OF KLAUWOCK  
 COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS  
 June 30, 2002

	Library Fund	Coastal Zone Management	Holiday Fund	Heritage Fund	Total
<b>ASSETS</b>					
Cash					
Due from other funds	3,048		5,435	3,335	8,770
Due from other governments		750		12,633	3,048
Due from school					13,383
Total assets	\$ 3,048	\$ 750	\$ 5,435	\$ 15,968	\$ 25,201
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	3,048		6	4,250	7,304
Other payables				1,300	1,300
Due to other funds		750	5,429	6,840	13,019
Total liabilities	3,048	750	5,435	12,390	21,623
Fund balances (deficits)					
Unreserved, undesignated				3,578	3,578
Total fund balances				3,578	3,578
Total liabilities and fund balances	\$ 3,048	\$ 750	\$ 5,435	\$ 15,968	\$ 25,201

See accompanying notes to the financial statements.

CITY OF KLAUWOCK  
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS  
 For the Year Ended June 30, 2002

	Library Fund	Coastal Zone Management	Holiday Fund	Heritage Fund	Total
Revenues					
Intergovernmental	7,536	4,654		26,951	39,141
Other			9,055	1,094	10,149
Total revenues	<u>7,536</u>	<u>4,654</u>	<u>9,055</u>	<u>28,045</u>	<u>49,290</u>
Expenditures					
Education					
Other	9,180	6,050	18,099	23,999	57,328
Total expenditures	<u>9,180</u>	<u>6,050</u>	<u>18,099</u>	<u>23,999</u>	<u>57,328</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,644)</u>	<u>(1,396)</u>	<u>(9,044)</u>	<u>4,046</u>	<u>(8,038)</u>
Other Financing Sources (uses)					
THREA settlement				2,495	2,495
Operating transfers in	1,644	1,396	9,044		12,084
Operating transfers out				(2,963)	(2,963)
Total other financing sources (uses)	<u>1,644</u>	<u>1,396</u>	<u>9,044</u>	<u>(468)</u>	<u>11,616</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses				3,578	3,578
Fund balances (deficits), to begin					
Residual equity transfer					
Fund balances (deficits), to end				<u>\$3,578</u>	<u>\$3,578</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
LIBRARY FUND  
SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental		7,536	7,536
Total revenues		7,536	7,536
Expenditures			
Insurance	230	90	140
Maintenance	1,000	1,959	(959)
Fixtures and equipment	2,500	3,087	(587)
Materials and supplies	1,270	910	360
Utilities	2,000	2,442	(442)
Other		692	(692)
Total expenditures	7,000	9,180	(2,180)
Excess (deficiency) of revenues over (under) expenditures	(7,000)	(1,644)	5,356
Other Financing Sources			
Operating transfers in	7,000	1,644	(5,356)
Total other financing sources	7,000	1,644	(5,356)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses			
Fund balance, to begin			
Fund balance, to end			

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
HOLIDAY FUND  
SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Donations		9,003	9,003
Interest		52	52
Total revenues		9,055	9,055
Expenditures			
Christmas	3,000	3,645	(645)
4th of July	4,000	7,992	(3,992)
Seafest		5,833	(5,833)
Other		629	(629)
Total expenditures	7,000	18,099	(11,099)
Excess (deficiency) of revenues over (under) expenditures	(7,000)	(9,044)	(2,044)
Other Financing Sources			
Transfers in	7,000	9,044	2,044
Total other financing sources	7,000	9,044	2,044
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses			
Fund balance, to begin			
Fund balance, to end			

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
HERITAGE FUND  
SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental		26,951	26,951
Miscellaneous		1,094	1,094
Total revenues		<u>28,045</u>	<u>28,045</u>
Expenditures			
Contractual	20,000	10,051	9,949
Insurance	570	225	345
Maintenance	430	670	(240)
Utilities	3,000	2,109	891
Other		10,944	(10,944)
Total expenditures	<u>24,000</u>	<u>23,999</u>	<u>1</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(24,000)</u>	<u>4,046</u>	<u>28,046</u>
Other Financing Sources (Uses)			
THREA settlement		2,495	2,495
Transfers in	24,000		(24,000)
Transfers out		(2,963)	(2,963)
Total other financing sources (uses)	<u>24,000</u>	<u>(468)</u>	<u>(24,468)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses		<u>3,578</u>	<u>3,578</u>
Fund balance, to begin			
Fund balance, to end		<u>\$ 3,578</u>	<u>\$ 3,578</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
 COASTAL ZONE MANAGEMENT FUND  
 SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 For the Year Ended June 30, 2002

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Intergovernmental	4,654	4,654	
Total revenues	<u>4,654</u>	<u>4,654</u>	
Expenditures			
Personnel	3,000	3,000	
Travel	1,850	1,850	
Other	1,200	1,200	
Total expenditures	<u>6,050</u>	<u>6,050</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>(1,396)</u>	<u>(1,396)</u>	
Other Financing Sources (Uses)			
Transfers in	1,396	1,396	
Total other financing sources (uses)	<u>1,396</u>	<u>1,396</u>	
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses			
Fund balance, to begin			
Fund balance, to end			

See accompanying notes to the financial statements.

## DEBT SERVICE FUND

This fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.



CITY OF KLAWOCK  
DEBT SERVICE FUND  
BALANCE SHEET  
June 30, 2002

ASSETS

Cash	14,027
Special assessments receivable - delinquent	49,620
Special assessments receivable	<u>847,728</u>
Total	<u>\$ 911,375</u>

LIABILITIES AND FUND BALANCE

Deferred revenue	<u>897,348</u>
Fund balance	
Unreserved	<u>14,027</u>
Total	<u>\$ 911,375</u>

See accompanying notes to the financial statements.

CITY OF KLAWOCK  
DEBT SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
For the Year Ended June 30, 2002

Revenues	
Special assessments	19,799
Interest	<u>22,585</u>
Total revenues	<u>42,384</u>
Expenditures	
Debt service	
Principal	24,196
Interest	44,666
Other	<u>45</u>
Total expenditures	<u>68,907</u>
Excess of revenues over expenditures	<u>(26,523)</u>
Other financing sources (uses)	
Operating transfers in	<u>5,455</u>
Total other financing sources	<u>5,455</u>
Excess of revenues and other financing sources over expenditures and other financing uses	(21,068)
Fund balance, to begin	<u>35,095</u>
Fund balance, to end	<u>\$ 14,027</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
 COMBINING BALANCE SHEET - ALL CAPITAL PROJECT FUNDS  
 June 30, 2002

	3-Mile D/E Water Intake Structure	Carvers' Shed	Totals
<b>ASSETS</b>			
Due from other funds	1,973		1,973
Total assets	<u>\$ 1,973</u>		<u>\$ 1,973</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Deferred revenue and other payables	1,973		1,973
Total liabilities	<u>1,973</u>		<u>1,973</u>
Fund balances			
Total fund balance			
Total liabilities and fund balances	<u>\$ 1,973</u>		<u>\$ 1,973</u>

See accompanying notes to the financial statements.

CITY OF KLAWOCK  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
 BALANCES - ALL CAPITAL PROJECT FUNDS  
 For the Year Ended June 30, 2002

	3-Mile D/E Water Intake Structure	Carvers' Shed	Totals
Revenues			
Intergovernmental			
Total revenues			
Expenditures			
Salaries and taxes		1,187	1,187
Materials and supplies		2,986	2,986
Total expenditures		4,173	4,173
Excess (deficiency) of revenue over (under) expenditures		(4,173)	(4,173)
Other Financing Sources (Uses)			
Loan proceeds			
Operating transfers in		4,173	4,173
Total other financing sources		4,173	4,173
Excess (deficiency) of revenues and other financing sources over (under) expend- itures and other financing uses			
Fund balances, to begin			
Fund balance (deficit), to end			

See accompanying notes to the financial statements.

CITY OF KLAUWOCK  
COMBINING BALANCE SHEET-ALL ENTERPRISE FUNDS  
June 30, 2002

ASSETS	Water, Sewer, Refuse and Harbor		Rents and Leases	Liquor Store	Total
Current assets					
Cash	37,413			193,834	231,247
Time certificate of deposit collateral	225,000				225,000
Accounts receivable, net of allowance for doubtful accounts of \$115,283	11,788	6,340		230	18,358
Due from other governments	120,540				120,540
Advance to other fund				99,803	99,803
Container deposits	3,960				3,960
Inventory					
Due from other funds			367,045	170,295	170,295
Total current assets	398,701		373,385	68,267	435,312
Property and equipment				532,429	1,304,515
Water and sewer system	13,002,302				13,002,302
Harbor improvements	550,200				550,200
Landfill improvements	12,339				12,339
Leasehold improvements	200,368			49,028	49,028
Equipment	13,765,209			60,353	260,721
	(2,725,266)			109,381	13,874,590
	11,039,943			(53,010)	(2,778,276)
Allowance for depreciation				56,371	11,096,314
Total assets	\$ 11,438,644	\$ 373,385	\$ 588,800	\$ 12,400,829	

CITY OF KLAUWOCK  
COMBINING BALANCE SHEET-ALL ENTERPRISE FUNDS (CONTINUED)  
June 30, 2002

	Water, Sewer, Refuse and Harbor	Rents and Leases	Liquor Store	Total
<b>LIABILITIES AND FUND EQUITY</b>				
Current liabilities				
Accounts payable	133,263	1,814	41,575	176,652
Accrued payroll and payroll taxes	27,676	68	9,033	36,777
Accrued leave payable	11,235		4,621	15,856
Deferred revenue	25,395	20,563		45,958
Sales taxes		4,568	11,806	16,374
Current portion of long-term liabilities	19,179			19,179
Due to other funds	268,717			268,717
Total current liabilities	485,465	27,013	67,035	579,513
Long-term liabilities				
DEC loans	396,071			396,071
Revenue bond				
Landfill closure and postclosure liability	867,845			867,845
Total long-term liabilities	1,263,916			1,263,916
<b>Fund equity</b>				
Contribution in aid of construction				
Local contributions	1,049,230			1,049,230
Federal government	5,845,330			5,845,330
State government	5,220,478			5,220,478
Accrued amortization	(2,313,735)			(2,313,735)
Retained earnings				
Reserved for loan guarantee	225,000			225,000
Reserved for prepaids	3,960			3,960
Reserved for inventory			170,295	170,295
Unreserved	(341,000)	346,372	351,470	356,842
Total fund equity	9,689,263	346,372	521,765	10,557,400
Total liabilities and fund equity	\$ 11,438,644	\$ 373,385	\$ 588,800	\$ 12,400,829

See accompanying notes to the financial statements.

CITY OF KLAUWICK  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS-ALL ENTERPRISE FUNDS  
For the Year Ended June 30, 2002

	Water, Sewer, Refuse and Harbor	Rents and Leases	Liquor Store	Total
<b>OPERATING REVENUES</b>				
Charges for services				
Water	146,444			146,444
Refuse collection	140,081			140,081
Sewer	123,904			123,904
Dumpsite	111,653			111,653
Harbor	13,076			13,076
Rents		215,853		215,853
Liquor store			1,106,525	1,106,525
Total operating revenues	535,158	215,853	1,106,525	1,857,536
<b>OPERATING EXPENSES</b>				
Operations	567,459	56,650	1,017,965	1,642,074
Depreciation	330,915		10,938	341,853
Total operating expenses	898,374	56,650	1,028,903	1,983,927
Operating income (loss)	(363,216)	159,203	77,622	(126,391)
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	12,235		3,909	16,144
Interest expense	(10,733)			(10,733)
THREA settlement	18,863	10,484	49,542	78,889
Federal capital grants	433,879			433,879
State capital grants	128,312			128,312
Total non-operating revenues (expenses)	582,556	10,484	53,451	646,491
Income (loss) before operating transfers	219,340	169,687	131,073	520,100
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	77,724	(169,687)	(74,000)	77,724
Operating transfers out	77,724	(169,687)	(74,000)	(243,687)
Total operating transfers				(165,963)
Net income (loss)	297,064		57,073	354,137
Depreciation on fixed assets acquired from grants	225,678			225,678
Increase (decrease) in retained earnings	522,742		57,073	579,815
Retained earnings, to begin	194,619	346,372	464,692	1,005,683
Prior period adjustment	(829,401)			(829,401)
Retained earnings, to begin (restated)	(634,782)	346,372	464,692	176,282
Retained earnings, to end	\$ (112,040)	\$ 346,372	\$ 521,765	\$ 756,097

See accompanying notes to the financials statements.

CITY OF KLAUWOCK  
COMBINING STATEMENT OF CASH FLOWS - ALL ENTERPRISE FUNDS  
For the Year Ended June 30, 2002

	Water, Sewer, Refuse and Harbor	Rents and Leases	Liquor Store	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	583,990	206,205	1,102,141	1,892,336
Cash payments to employees for services	(266,789)	(4,718)	(151,783)	(423,290)
Cash payments to suppliers for goods and services	(146,464)	(45,987)	(848,564)	(1,041,015)
Net cash provided by operating activities	<u>170,737</u>	<u>155,500</u>	<u>101,794</u>	<u>428,031</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of fixed assets	(639,914)			(639,914)
Capital grants received from other governments	475,289			475,289
THREA settlement	18,863	10,484	49,542	78,889
Interest paid	(10,733)			(10,733)
Principal payments on debt	(18,711)		(14,780)	(33,491)
Net cash used for capital and related financing activities	<u>(175,206)</u>	<u>10,484</u>	<u>34,762</u>	<u>(129,960)</u>

**CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES**

(Increase) decrease in due from other funds		3,703	(50,653)	(46,950)
Transfers from other funds	77,724			77,724
Transfers to other funds		(169,687)	(74,000)	(243,687)
Increase (decrease) in due to other funds	(81,336)			(81,336)
Net cash used for non capital financing activities	<u>(3,612)</u>	<u>(165,984)</u>	<u>(124,653)</u>	<u>(294,249)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	12,236		3,909	16,145
Advance to other fund			(99,803)	(99,803)
Net cash from investing activities	<u>12,236</u>		<u>(95,894)</u>	<u>(83,658)</u>

**Net increase in cash and cash equivalents**

		(83,991)		(79,836)
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**Beginning cash and cash equivalents**

		277,825		311,083
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**Ending cash and cash equivalents**

\$	<u>37,413</u>		<u>\$ 193,834</u>	<u>\$ 231,247</u>
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CITY OF KLAUWOCK  
 COMBINING STATEMENT OF CASH FLOWS - ALL ENTERPRISE FUNDS (CONTINUED)  
 For the Year Ended June 30, 2002

	Water, Sewer, Refuse and Harbor	Rents and Leases	Liquor Store	Total
Operating income (loss)	(363,216)	159,203	77,622	(126,391)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	330,915		10,938	341,853
Decrease (increase) in accounts receivable	48,832	(1,448)	(4,384)	43,000
Decrease (increase) in deposits	(1,395)			(1,395)
Decrease (increase) in inventory			6,512	6,512
Increase(decrease) in accounts payable	90,746	1,309	4,395	96,450
Increase(decrease) in sales taxes payable		4,568	(278)	4,290
Increase(decrease) in accrued payroll	18,906	68	2,368	21,342
Increase(decrease) in accrued leave	11,235		4,621	15,856
Increase(decrease) in landfill closure liability	34,714			34,714
Increase(decrease) in deferred revenue		(8,200)		(8,200)
Total adjustments	533,953	(3,703)	24,172	554,422
Net cash provided by operating activities	\$ 170,737	\$ 155,500	\$ 101,794	\$ 428,031

NONCASH OPERATING, CAPITAL, AND FINANCING ACTIVITIES

Liability for landfill closure and post-closure costs	
Prior period adjustment for unbooked prior liability charged to retained earnings	815,631
Amortization of contributed capital	225,679

CITY OF KLAWOCK  
WATER, SEWER, REFUSE AND HARBOR ENTERPRISE FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Year Ended June 30, 2002

REVENUES

Charges for services	
Water	146,444
Refuse collection	140,081
Sewer	123,904
Dumpsite	111,653
Harbor	13,076
Total revenues	<u>535,158</u>

EXPENSES

Water	
Payroll and payroll taxes	92,388
Retirement	3,495
Worker's comp insurance	1,290
Medical insurance	6,417
Liability insurance	1,878
Materials and supplies	26,058
Utilities	6,370
Repairs and maintenance	2,506
Contractual services	686
Freight and postage	700
Equipment related	1,560
Property insurance	1,125
Depreciation	234,445
Bad debts	56,539
Other	1,439
	<u>436,896</u>

CITY OF KLAUOCK  
WATER, SEWER, REFUSE AND HARBOR ENTERPRISE FUND  
STATEMENT OF REVENUES EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Year Ended June 30, 2002

EXPENSES (CONTINUED)

Sewer

Payroll and payroll taxes	61,656
Retirement	2,293
Worker's comp insurance	888
Medical insurance	4,859
Materials and supplies	3,369
Liability insurance	2,034
Repairs and maintenance	3,264
Contractual services	3,030
Freight and postage	700
Utilities	16,944
Equipment related	1,858
Property insurance	1,125
Depreciation	65,366
Other	2,661
	<u>170,047</u>

Refuse collection

Payroll and payroll taxes	35,598
Retirement	1,223
Worker's comp insurance	1,729
Medical insurance	2,972
Materials and supplies	210
Liability insurance	1,534
Repairs and maintenance	2,397
Travel & training	170
Equipment related	1,612
Depreciation	578
Other	2,044
	<u>50,067</u>

Harbors

Payroll and payroll taxes	7,321
Retirement	112
Medical insurance	303
Worker's comp insurance	490
Materials and supplies	2,497
Repairs and maintenance	790
Equipment related	29
Depreciation	18,673
Other	1,960
	<u>32,175</u>

CITY OF KLAUOCK  
WATER, SEWER, REFUSE AND HARBOR ENTERPRISE FUND  
STATEMENT OF REVENUES EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Year Ended June 30, 2002

EXPENSES (CONTINUED)

Dumpsite	
Payroll and payroll taxes	63,704
Retirement	2,248
Worker's comp insurance	3,027
Medical insurance	4,917
Contractual services	5,821
Solid waste disposal expense	20,678
Liability insurance	736
Repairs and maintenance	47,603
Equipment related	9,735
Materials and supplies	2,237
Post closure costs	34,714
Depreciation	11,853
Other	1,916
	<u>209,189</u>
Total expenses	<u>898,374</u>
Operating income (loss)	<u>(363,216)</u>
Non Operating Revenues (Expenses)	
Interest income	12,235
Interest expense	(10,733)
THREA settlement	18,863
Federal capital grants	433,879
State capital grants	128,312
Total non-operating income (expenses)	<u>582,556</u>
Income (loss) before operating transfers	219,340
Other financing sources (uses)	
Transfer in	<u>77,724</u>
Net income (loss)	297,064
Depreciation on fixed assets acquired from grants	<u>225,678</u>
Increase in retained earnings	<u>522,742</u>
Retained earnings, to begin	194,619
Prior period adjustment	(829,401)
Retained earnings, to begin (restated)	<u>(634,782)</u>
Retained earnings, to end	<u>\$ (112,040)</u>

See accompanying notes to the financial statements.

CITY OF KLAUOCK  
RENTS AND LEASE INCOME  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Year Ended June 30, 2002

REVENUES

Rents	215,853
Total revenues	<u>215,853</u>

EXPENSES

Payroll and payroll taxes	4,786
Others	10,895
Bad debts	<u>40,969</u>
	<u>56,650</u>

Operating income (budgetary basis)	<u>159,203</u>
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NON OPERATING REVENUES (EXPENSES)

THREA settlement	10,484
Transfer out	<u>(169,687)</u>
Total non-operating revenues (expenses)	<u>(159,203)</u>

Net income (loss)

Retained earnings, to begin

Retained earnings, to end


CITY OF KLAWOCK  
LIQUOR STORE ENTERPRISE FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
For the Year Ended June 30, 2002

OPERATING REVENUES

Liquor store	1,106,525
Total revenues	<u>1,106,525</u>

OPERATING EXPENSES

Liquor store and gaming	
Cost of goods sold	786,218
Payroll and payroll taxes	141,633
Workers comp insurance	1,587
Retirement	4,401
Medical insurance	11,151
Liability insurance	7,478
Materials and supplies	6,794
Utilities	18,944
Equipment related	21
Repairs and maintenance	26,878
Depreciation	10,938
Other	12,860
Total operating expenses	<u>1,028,903</u>

Operating income	<u>77,622</u>
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NON OPERATING REVENUES (EXPENSES)

Interest income	3,909
THREA settlement	49,542
Transfer out to other funds	(74,000)
Total non-operating revenues (expenses)	<u>(20,549)</u>

Net income (loss)	57,073
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Retained earnings, to begin	<u>464,692</u>
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Retained earnings, to end	<u>\$ 521,765</u>
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## GENERAL FIXED ASSETS ACCOUNT GROUP

This account group accounts for fixed assets of the City that are not used in proprietary fund operations.

CITY OF KLAUOCK  
SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE  
June 30, 2002

General Fixed Assets

Furniture	20,088
Vehicles	305,653
Equipment	446,995
Parks	4,789
Buildings and structures	<u>2,042,111</u>

Total	<u>\$ 2,819,636</u>
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Investment in General Fixed Assets From

Federal government	460,367
State government	1,416,754
General fund	<u>942,515</u>

Total	<u>\$ 2,819,636</u>
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CITY OF KLAUOCK  
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
June 30, 2002

	General Fixed Assets June 30, 2001	Additions	Transfers & Deductions	General Fixed Assets June 30, 2002
Administration	353,023			353,023
Public safety				
Police	145,874			145,874
Fire	609,800			609,800
Total public safety	755,674			755,674
Apartment building	44,106	100,303		144,409
Emergency medical services	160,484			160,484
Land	55,720			55,720
Library	197,430			197,430
Longhouse	231,943			231,943
Totem carving house	12,479	4,174		16,653
Mary Jackson electrical	130,334			130,334
Maintenance				
Public works	280,073			280,073
Youth services	493,893			493,893
Total general fixed assets allocated to functions	1,606,462	104,477		1,710,939
Total general fixed assets	\$ 2,715,159	\$ 104,477		\$ 2,819,636

See accompanying notes to the financial statements.

CITY OF KLAUWOCK  
SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY  
June 30, 2002

	Total	Buildings & Structures	Parks	Vehicles	Equipment	Furniture
Administration	353,023	297,319			49,140	6,564
Public safety						
Police	145,874	20,000		78,155	47,075	644
Fire	609,800	485,734		16,380	98,620	9,066
Total public safety	755,674	505,734		94,535	145,695	9,710
Apartment building	144,409	142,840			835	734
Emergency services	160,484			146,704	13,780	
Land-Civic Center	55,720	55,720				
Library	197,430	190,629			6,801	
Longhouse	231,943	231,943				
Totem carving house	16,653	16,653				
Mary Jackson electrical	130,334	130,334				
Public works	280,073	58,037	4,789	64,414	152,833	
Youth services	493,893	412,902			77,911	3,080
Total general fixed assets allocated to functions	1,710,939	1,239,058	4,789	211,118	252,160	3,814
Total general fixed assets	\$ 2,819,636	\$ 2,042,111	\$ 4,789	\$ 305,653	\$ 446,995	\$ 20,088

See accompanying notes to the financial statements.

## GENERAL LONG-TERM DEBT ACCOUNT GROUP

This account group accounts for the City's general governmental long-term debt

CITY OF KLAWOCK  
STATEMENT OF GENERAL LONG-TERM DEBT  
For the Year Ended June 30, 2002

AMOUNT AVAILABLE AND TO BE PROVIDED FOR PAYMENT  
OF GENERAL LONG-TERM DEBT

Amount available in Debt Service funds	14,027
Amount to be provided	<u>915,694</u>
Total	<u>\$ 929,721</u>

LIABILITIES

Mary Jackson Subdivision water/sewer special assessment bonds	805,496
Mary Jackson Subdivision, Alaska Division of Energy special assessment loan	101,923
Paving loan	<u>22,302</u>
Total	<u>\$ 929,721</u>

See accompanying notes to the financial statements.

CITY OF KLAWOCK  
STATEMENT OF CHANGES IN GENERAL LONG-TERM DEBT  
For the Year Ended June 30, 2002

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
<b>OTHER DEBITS</b>				
Amount available in Debt Service funds	35,095		(21,068)	14,027
Amount to be provided	918,821		(3,127)	915,694
	<u>\$953,916</u>		<u>(\$24,195)</u>	<u>\$929,721</u>
<b>LIABILITIES</b>				
Mary Jackson Subdivision water/sewer special assessment bonds	813,426		(7,930)	805,496
Mary Jackson Subdivision, Alaska Division of Energy special assessment loan	112,688		(10,765)	101,923
Paving loan	27,802		(5,500)	22,302
	<u>\$953,916</u>		<u>(\$24,195)</u>	<u>\$929,721</u>

ADDITIONAL REPORT SECTION

CITY OF KLAWOCK, ALASKA  
FEDERAL FINANCIAL ASSISTANCE SUPPLEMENTARY  
AUDIT REPORT

For the Year Ended June 30, 2002

This report includes the following:

- Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*
- Report on Compliance with Requirements Applicable to Each Major  
Program and Internal Control Over compliance in Accordance with  
OMB Circular A-133
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs

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CERTIFIED PUBLIC ACCOUNTANTS**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the City Council  
City of Klawock  
Klawock, Alaska

We have audited the financial statements of the City of Klawock, Alaska ("the City") as of and for the year ended June 30, 2002, and have issued our report thereon dated November 10, 2004, which was qualified because we were unable to audit the General Fixed Assets Account Groups of the City and of its component unit, the Klawock City School District. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the City of Klawock in a separate letter dated November 10, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as



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items 97-02, 2000-01, 2000-03 and 2001-01. All are repeat comments from the fiscal year ended June 30, 2001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 97-02, 2000-01, and 2000-03 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Klawock in a separate letter dated November 10, 2004.

This report is intended solely for the information of management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mecham, Richardson and Company*

November 10, 2004

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

Honorable Mayor and Members of the City Council  
City of Klawock  
Klawock, Alaska

Compliance

We have audited the compliance of the City of Klawock, Alaska ("the City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable

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City of Klawock

to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2002-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not considered to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the City as of and for the year ended June 30, 2002, and have issued our qualified report thereon dated November 10, 2004. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information of management, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mecham, Richardson and Company*  
November 10, 2004

CITY OF Klawock  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2002

Major	CFDA Number	Grant/ Program Number	Award amount	(Def Revenue) Grant Rec at 7/1/01	Activity during the year ended June 30, 2002		(Def Revenue) Grant Rec at 6/30/02
					Receipts	Expenditures	
<b><u>DIRECT FEDERAL PROGRAMS</u></b>							
<b>U.S. DEPARTMENT OF AGRICULTURE</b>							
Challenge Cost Share #02CS-111005-062	10.670		10,600			10,600	10,600
FY01 E.R.P. 01DG11100000210 - Totem Restoration	10.670		20,000		14,318	16,351	2,033
Total Direct U.S. Department of Agriculture			30,600		14,318	26,951	12,633
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>							
Indian Health Service - Water Tank & Wastewater Improve	93.000	AN-97-L81	1,273,000	(25,503)	131	239	(25,395)
Total Direct U.S. Department of Health and Human Services (Administered by Alaska Native Tribal Health Consortium ("ANTHC"))			1,273,000	(25,503)	131	239	(25,395)
<b>U.S. DEPARTMENT OF JUSTICE</b>							
COPS FAST	16.712	95-CF-WX-3997	75,000		4,086	4,086	
Total Direct U.S. Department of Justice			75,000		4,086	4,086	
<b>DENALI COMMISSION</b>							
3.5-Mile Creek Water Source	90.100	0002-DC1999-ED1	242,000			1,973	1,973
Solid Waste Transfer Station Demonstration Project	90.100	0040-DC2001-I21	728,900		320,142	431,906	111,764
Total Direct Denali Commission			970,900		320,142	433,879	113,737
TOTAL DIRECT FEDERAL FINANCIAL ASSISTANCE			2,349,500	(25,503)	338,677	465,155	100,975
<b><u>PASS THROUGH FUNDS</u></b>							
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT D/E Water Intake Structure	No	14.228	175,000		1,973		(1,973)
<b>U.S. DEPARTMENT OF INTERIOR - FISH &amp; WILDLIFE SERVICE</b>							
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF FISH AND GAME Harbor Improvements & Expansion	No	15.622	25,000				

CITY OF Klawock  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2002

	Major	CFDA Number	Grant/ Program Number	Award amount	(Def Revenue) Grant Rec at 7/1/01	Activity during the year ended June 30, 2002		(Def Revenue) Grant Rec at 6/30/02
						Receipts	Expenditures	
U.S. DEPARTMENT OF AGRICULTURE								
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT								
National Forest Receipts - School Support	No	10.665		237,054		237,054		
National Forest Receipts - Roads	No	10.665		32,433		32,433		(32,433)
National Forest Receipts - Title III	No	10.665		52,394		52,394		(52,394)
Total Indirect U.S. Department of Agriculture				321,881		321,881	237,054	(84,827)
U.S. DEPARTMENT OF INTERIOR - BUREAU OF LAND MANAGEMENT								
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT								
Federal Payment in Lieu of Tax (PILT)	No	15.226	AREF021026026	77,423		77,423	77,423	
U.S. DEPARTMENT OF INTERIOR								
PASSED THROUGH STATE OF ALASKA, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT								
Alaska Coastal Management Program	No	11.419	820551	6,400		4,654	5,404	750
Total Indirect U.S. Department of Interior				6,400		4,654	5,404	750
TOTAL FEDERAL FINANCIAL ASSISTANCE PASSED THROUGH THE STATE OF ALASKA								
				605,704		405,931	319,881	(86,050)
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 2,955,204	\$ (25,503)	\$ 744,608	\$ 785,036	\$ 14,925

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED June 30, 2002

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Klawock, Alaska and is presented on the basis of generally accepted accounting principles (GAAP) as applied to government units. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

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**City of Klawock, Alaska**  
**Schedule of Findings and Questioned Costs**  
**for the year ended June 30, 2002**

Honorable Mayor and Members of the City Council  
City of Klawock  
Klawock, Alaska

**A. Summary of Audit Results**

- I. A qualified opinion has been issued on the financial statements of the City of Klawock. The opinion disclaimed on the general fixed asset account group
- II. Reportable conditions were disclosed by the audit of the financial statements, of which, 97-02, 2000-01 and 2000-03 are material weaknesses.
- III. The audit did not disclose any instances of material non-compliance.
- IV. One reportable condition, which is not a material weakness, applicable to a major program was disclosed by the audit.
- V. An unqualified opinion has been issued on compliance for major programs.
- VI. The audit disclosed one audit finding related to a major program which is required to be reported.
- VII. The City had two major programs as defined by Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These programs were Solid Waste Transfer Station Demonstration Project and 3-Mile Creek Water Source. 3-Mile Creek Water Source is included solely because it is under the same CFDA number as the Solid Waste Transfer Station Demonstration Project.
- VIII. The dollar threshold used to distinguish between Type A and Type B programs is federal awards with expenditures greater than \$300,000.
- IX. The City did not qualify as a low-risk auditee as defined by Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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City of Klawock

**B. Findings - Financial Statement Audit**

The following findings; 97-02, 2001-01, 2000-03 and 2001-01 were from the prior year and are repeated because they have not been corrected.

**Reportable Conditions**

**97-02**

Fixed Assets

- Condition: A historical valuation of the cost of general fixed assets is not kept.
- Criteria: Accounting records itemizing each asset and the cost of assets should be maintained by the accounting department.
- Effect: Because of the failure document the cost and purchase date of assets belonging to the City, the general fixed assets account group cannot be audited.
- Recommendation: A physical inventory of the fixed assets should be taken and reconciled to the general ledger and detailed property records should be set up and maintained on a current basis to ensure control over the fixed assets of the City and the School District. The assets should be valued at historical cost. In those instances where historical cost can not be determined, the assets should be valued at estimated historical cost based on the best information obtainable.
- Response: The City concurs with this recommendation. However, funding and resources are limited for this procedure, as an appraisal will need to be taken for most items. The City will work to get this accomplished.

**2000-01**

Accounts Receivable

- Condition: Balances did not agree with the general ledger. Some items are billed after the fact and others in advance, but both were being billed as of the same date. Some individual receivables were being maintained in subsidiary ledgers but were not booked at all in the general ledger, except as revenue when collected.

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City of Klawock

- Criteria:** Accounts receivable subsidiary ledgers are complete, consistent, and agree to the general ledger.
- Effect:** There is inadequate oversight over the accounts receivable and revenue recognition functions, and a resultant inability to perform adequate management of cash flows and collections.
- Recommendation:** All subsidiary ledgers should be consistently maintained and should always agree to the related general ledger accounts. The Accounts Receivable Clerk and the Business Manager should communicate regularly and coordinate their efforts to ensure that the balances agree and any differences should be promptly investigated and resolved.
- Response:** The City concurs with this recommendation. Steps have already been taken to get this accomplished.

**2000-03**

**General Ledger Balances**

- Condition:** The interfund due to/from accounts were out of balance by over 46 thousand dollars and transfers between funds were out of balance by over 6 thousand dollars. The year end bank account reconciliation for the general fund did not agree to the general ledger.
- Criteria:** The interfund due to/from accounts and transfer accounts should be in balance and all cash accounts should reconcile to the general ledger.
- Effect:** General ledger account balances were incorrect, so financial reports used by decision-makers would be incorrect and could lead to inappropriate financial decisions.
- Recommendation:** Once the beginning balances are adjusted to agree with the final audited balances and the due to/from and transfer accounts are balanced, all the general ledger balances should be kept current and subjected to monthly review for any potential errors or problems. Differences should be promptly investigated and resolved.
- Response:** The City concurs with this recommendation. The City will work to get this accomplished.



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**2001-01**

Grants

- Condition:** Several grants in the general fund and all funds established for individual grants needed adjustment for amounts misposted or not allocated on the general ledger the same way they were reported for the grants.
- Criteria:** Grant reports are in agreement with the general ledger.
- Effect:** The general ledger does not accurately show the assets, liabilities, revenues and expenses of the grant funds and thus becomes unreliable as a control over the grants.
- Recommendation:** Regardless of who prepares the grant reports, prior to the report being mailed, the City Accountant needs to compare the grant reports with the general ledger to ensure that they are in agreement each time a grant report is prepared. This will help ensure that expenditures claimed for reimbursement are charged to the proper grant in the general ledger and that qualified grant expenditures are not overlooked when requesting reimbursement through the grant reports. Any final receivables from or payables to granting agencies should be recorded in the general ledger to properly show the revenues to which the City was actually entitled under the grant.
- Response:** The City concurs with this recommendation. The City will work to get this accomplished.

**C. Findings and Questioned Costs - Major Federal Award Programs Audit**

**2002-01 – Reportable Condition**

Grant Reports – Denali Commission – Solid Waste Transfer Station Demonstration Project

- Condition:** Three of the quarterly grants due for the year ended June 30, 2002 were filed at the same time in April 2003. The fourth report was not filed at all. The only other report files was the close-out report filed in November 2004.
- Criteria:** Grant reports are filed quarterly in accordance with the grant award.

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Honorable Mayor and Members of the City Council  
City of Klawock

**Effect:** The grant reporting requirements were not met and the City was out of compliance with grant requirements over reporting.

**Recommendation:** Grant reports are often the primary means that the grantor has to reasonably oversee the progress of the grant activity. It is very important that grant reports be filed timely according to the schedule specified in the grant award. We recommend that grant awards be reviewed for the associated reporting requirements and that the report due dates be entered into a tickler file and adhered to.

**Response:** The City concurs with this recommendation. The City experienced some upheaval in staffing of personnel responsible for grant reporting at the time this grant was being administered and at the same time as the grant project experienced a lengthy unavoidable delay, and although the reports fell through the cracks, the grantor was kept appraised of the grant status on a frequent basis through telephone calls, faxes and letters.

### **Material Weaknesses**

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that (1) errors or irregularities in amounts that would be material in relation to the general-purpose financial statements being audited or (2) noncompliance with laws and regulations that would be material to the federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Of the reportable conditions described above, we consider items 97-02, 2000-01 and 2000-03 to be material weaknesses.

### **Material Non-compliance**

Material noncompliance is failure to follow requirements, or a violation of prohibitions, established by law, regulation, contract or grant that results in an aggregation of noncompliance that is material to the affected major federal program being audited. There were no instances of material noncompliance noted.

### **Prior Audit Findings**

As noted above, findings 97-02, 2000-1, 2000-3 and 2001-1 were repeated from the prior year. Findings 97-02, 2000-1 and 2001-1 were repeated in their entirety. Considerable progress was made on finding 2000-3 and we were pleased to note that the overall general ledger was in balance. However, the due to/from accounts were again out of balance, as were transfers

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between funds, and other general ledger maintenance issues were noted, so this comment was revised and repeated. Findings 2000-2 and 2001-2 from the prior year were resolved during the year ended June 30, 2002.

